

Residential Real Estate Analysis

Existing Home Sales Fall in November, but Other Parameters Still Very Strong

Filip Blazheski

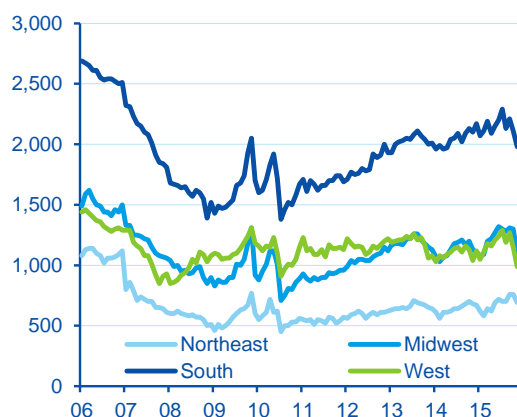
- Existing home sales in November declined 10.5% MoM and 3.8% YoY
- Likely reasons were the timing of the sales before the introduction of the latest mortgage disclosure rules and longer mortgage processing times after they were introduced
- Median home prices increased and inventory of existing homes for sale fell, indicating that the current drop in sales is likely transitory

Sales of single-family homes, townhomes, condominiums and co-ops in November fell 10.5% to a seasonally adjusted annual rate of 4.76 million, and stood 3.8% below a year ago, according to the National Association of Realtors. The drop in November followed a slowdown in October, and although influenced by multiple factors, was most likely a result of decreased mortgage applications in October and in the beginning of November, and longer mortgage processing times due to the new “Know Before You Owe” rule. Home prices continued to increase – the median existing home price stood 6.3% above November 2014. Also, total housing inventory for sale at the end of November decreased, and was 1.9% lower than a year ago.

Home Sales

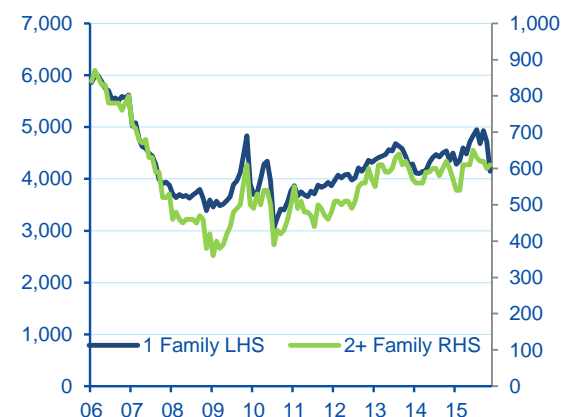
Existing home sales declined in all regions on a month-on-month basis – 9.2% in the Northeast, 15.4% in the Midwest, 6.2% in the South, and 13.9% in the West (Chart 1). The November slump affected single family homes, which represent close to 90% of all sales, but interestingly not multifamily homes (Chart 2). One of the likely reasons for the decline is the drop in mortgage applications for purchases in October and early November, which have already recovered by the end of November (Chart 3). The reason for the decline is likely borrowers and lenders preferring to start the application process prior to October 3, when the implementation of the new mortgage disclosure rules started, and thus benefiting from speedier processing times.

Chart 1
Existing Home Sales, SAAR, Thousands



Source: HAR, Haver and BBVA Research

Chart 2
Existing Home Sales, SAAR, Thousands



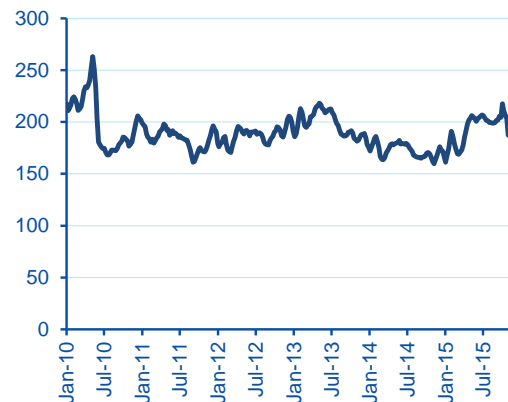
Source: HAR, Haver and BBVA Research

The second reason for the decline in sales in November is also connected to the introduction of the new disclosure rules. These rules made changes to disclosure forms used by lenders and requires that buyers get three business days to review closing disclosures and ask questions before they close on a mortgage. It was scheduled to go into effect August 1, but the Consumer Financial Protection Bureau (CFPB) granted a three-month extension to lenders and the real estate industry. The transition to the new documents and processing procedures have stretched out the mortgage processing times and have likely pushed some of the sales that would have happened in November into December. As such, the November slump is likely going to be transitory, especially since there are no indications of a downturn in the housing market as prices have continued to go up and inventory to decrease.

Home Prices and Inventory

While home sales have declined, home prices continued to go up in November. The median home price increased by 0.5% from the previous month, and was 6.3% higher than the same time last year (Chart 4). House prices increased in all parts of the U.S. - 3.2% in the Northeast, 5.3% in the Midwest, 6.3% in the South and 8.3% in the West. House price appreciation was driven by favorable interest rates and the good employment situation, as well as low inventory. Properties typically stayed on the market for 54 days in November, a decrease from 57 days in October and below the 65 days in November 2014. Unsold inventory was at a 5.1-month supply at the current sales pace, up from 4.8 months in October (Chart 5), but only because of the low monthly sales figure, which we expect to recover in the next month or two. Actually, the number of total existing homes available for sale at the end of November fell, and was 1.9% lower than a year ago.

Chart 3
Mortgage Purchase Applications, 4-Week Average, Index (1990=100)



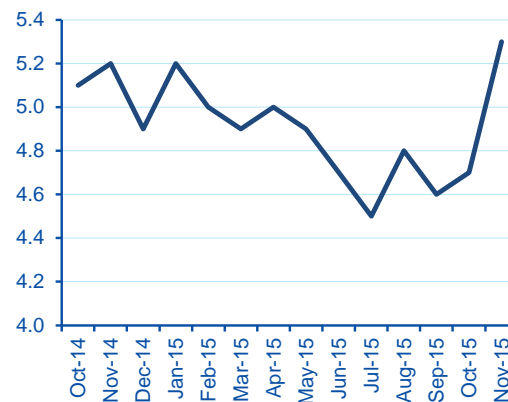
Source: MBA, Bloomberg and BBVA Research

Chart 4
Median Home Price, Year-on-Year Change, Percent



Source: HAR, Haver and BBVA Research

Chart 5
Housing Supply, Months' Supply



Source: HAR, Haver and BBVA Research

Bottom Line

The decline in existing home sales in November, although dramatic, is likely going to be a one-off event as it is most likely driven by the changes in mortgage processing, which resulted in timing of mortgage applications prior to their effect, and longer processing times after they went into effect. Home prices and inventory do not indicate problems in the market, and mortgage applications in late November and December have rebounded strongly.

DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.